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In this number: Private capital flows to CEECs and NIS

SUMMARY

The success of economic reform in Eastern European countries depends significantly on their capacity to attract an increasing inflow of private foreign capital. In most cases, domestic saving and Western official assistance alone will be insufficient to finance the huge investment effort necessary to move from a centrally-planned system to a private market economy. Unfortunately, however, net voluntary private flows into transition economies fell in 1990 and 1991, and, while they have recovered quite strongly since 1992, their growth has been very concentrated in a few, mostly Central European, countries.

- *If arrears, debt restructurings and publicly-guaranteed lending are excluded,* ***commercial banks have been consistently reducing their exposure into Eastern Europe since 1990.***
- ***In a number of CEECs (Hungary, the Czech Republic, Slovenia, Estonia and Latvia), the continuing reduction of international banks' new lending has been more than offset since 1992 by a growing inflow of other forms of private finance,*** *including FDI, issues of international bonds and portfolio investment.*
- ***In other transition countries, however, voluntary, non-guaranteed private flows remain very modest.*** *In Russia, in particular, foreign private financing has largely consisted in the accumulation of arrears, deferrals, restructurings and publicly-guaranteed credits. Furthermore, both Russia and other NIS are suffering from a serious capital flight problem that is to a large extent unrecorded in the statistics on private capital movements.*
- ***The main conditions for larger inflows of private capital*** *into the region are political and macro-economic stability, progress in structural reform and, in some cases, an adequate treatment of the inherited foreign debt burden.*
- ***By insisting on macro-economic stabilization and structural reform, the economic policy programmes supported by the IMF/World Bank and the EC/G-24*** *have aimed at removing some of the major obstacles to a higher inflow of private capital into the transition countries. The EC/G-24 macro-financial assistance is intended to be progressively discontinued as the current accounts of the recipient countries strengthen and private capital inflows increase. The conditionality incorporated into the programmes should, therefore, increasingly focus on those aspects of structural reform that are directly relevant for attracting private capital.*
- *In those countries where the service of the* ***foreign debt*** *imposes an unacceptable cost in terms of a compression of imports and economic growth, and which have already accumulated arrears or been forced to reschedule in the past, the debt burden represents a major obstacle for their access to international private finance. For those countries, EC/G-24 macro-financial assistance should support, where appropriate, debt restructuring and debt reduction operations, provided they are accompanied by comprehensive adjustment and reform programmes agreed with the IMF. By contrast, countries with high foreign debt but which have not incurred in the past the credibility cost of running arreas or restructuring, and which can manage to "grow out" of their debts, stand a better chance of increasing their inflows of private capital by continuing to fully service them.*

RECENT TRENDS IN PRIVATE CAPITAL FLOWS TO CEECs AND NIS

1. Overall trends

- Until the late 1980s private international financial flows to Eastern Europe largely consisted in lending from international commercial banks and suppliers' credits. Both international bank lending and total private flows to those countries expanded considerably in the second half of the 1980s. In 1990 and 1991, however, voluntary (1), non-publicly-guaranteed private capital flows into transition economies recorded a distinct contraction (see table 1). While foreign direct investment (FDI) and gross issues of international bonds expanded significantly in those years, this did not compensate the sharp decrease in banks' voluntary and non-guaranteed exposure into the area (see section 2).

  In 1992 and 1993, international banks have continued to reduce their voluntary and unguaranteed leading to CEECs and NIS but this has been more than offset by a quite important increase in other forms of private capital inflows. Furthermore, a considerable part of the increase in private inflows has been in the form of FDI and, to a lesser extent, portfolio equity investment. Thus, transition economies seem to be finally benefiting to some degree from the increase in non-debt-creating private capital inflows that many developing countries (LDC's) (2) have been enjoying since 1990.

- These overall trends, however, hide important differences between the CEECs and the NIS, as well as among countries belonging to each of these two areas.

  The growth of voluntary and non-guaranteed private financial flows into the transition economies has up to now been very concentrated in a few *Central European countries and the Baltic States (CEECs)*, with Hungary and the Czech Republic accounting for the bulk of it. It is worth noting here that, whereas official disbursements for most transition countries fell in the period 1991-92 significantly short of the amounts projected in the programmes agreed with the IMF, private medium- and long-term capital inflows received by CEECs were in general larger than initially envisaged (see table 2).

(1) That is, excluding arrears and debt restructurings.
(2) Excluding transition countries.

TABLE 2: **Programmed and actual external financing for CEEC's in 1991-92** (1) (2) (in billions of US dollars)

	Original IMF programme	Actual	Actual as a percentage of original programme
Official lending	17.8	9.4	53
IMF	6.2	4.7	76
World Bank	3.5	2.2	63
Other multilateral institutions	1.1	0.4	36
G-24	7	2,1	30
Private capital	8.3	10	120
Other (3)	10.6	9.9	93
Total financing	36.4	29.6	81
Memorandum items			
Current account	−15.3	−5.9	39
Change in reserves (− = increase)	−6.1	−9	148

Source: 'Official Financing for Developing Countries', IMF, August 1993.
(1) Gross disbursements.
(2) Figures are based on IMF programme years: calendar years for Bulgaria, the former CSFR, Hungary, Poland and Romania, and the period July 1992-June 1993 for Albania and the Baltic states. Poland is not included in 1992, when no annual program was agreed.
(3) Mainly debt relief by private and official creditors for Bulgaria and Poland.

By contrast, the flow of voluntary and unguaranteed private capital into the *New Independent States (NIS)* has remained very small, both in relative terms (that is, as a percentage of GDP or in per capita terms) and in absolute terms. Much of the growth of private capital inflows seen by NIS since 1992 reflects the fact that international banks have been forced to increase their exposure on Russia through the accumulation of arrears, and through deferrals and reschedulings. Part of it also reflects the extension of new commercial bank loans under public guarantees. More importantly, Russia and other NIS have been suffering since 1991 a very serious flight of private capital, most of which is not recorded in the statistics on private capital flows. Thus, taking the item "errors and omissions" of the balance of payments as a rough approximation for illegal capital, total capital flight from Russia (both illegal and through legal channels) is estimated to have amounted to almost US$ 10 bn in the first 9 months of 1993.

TABLE 1: **Net private capital inflows into CEEC's and NIS** (1) (in millions of US dollars)

	1986	1987	1988	1989	1990	1991	1992	1993 e
Net unguarenteed bank lending	−159	526	4.003	5.274	−6.951	−5.185	−1.752	—
Other net private loans (2)	838	3.604	−2.512	−1.791	8.287	712	11.146	—
Net issues of international bonds	347	567	1.218	2.159	1.765	1.441	914	4.733
Issues of international equity	—	—	—	—	68	91	33	10
Net foreign direct investment	−12	19	37	277	727	2.568	4.618	4.630
Net portofolio investment	—		—	—	—	—	200	1.300
Increase in arrears on private loans	—	1.361	1.584	−1.930	4.780	2.412	5.181	—
Interest arrears	—	−245	486	197	4.737	1.646	−933	—
Principal arrears	—	1.606	1.098	−2.127	43	767	6.114	—
Debt restructurings on private debt	2.472	1.544	1.073	2.522	1.332	558	3.197	—
Principal rescheduled	2.267	1.544	1.065	2.365	645	447	562	—
Interest rescheduled	205	—	8	157	170	104	635	—
Principal forgiven	—	—	—	—	517	7	2.000	—
Memorandum item:								
Net voluntary nonguaranteed private flows	176	1.111	5.258	7.710	−4.391	−1.085	4.013	—

Sources: World Debt Tables 1993/94 (World Bank), IMF, national balance of payments statistics and Commission estimates.
e Preliminary estimates.
(1) Excluding capital flight and other short-term capital movements.
(2) Suppliers' credits and bank credits covered by a guarantee from an export credit agency.

2. International bank lending

- Impressed by the adjustment undertaken by most the East Block countries during the first half of the 1980s and lacking attractive lending outlets, international banks expanded substantially their new credits to the CEECs (3) and, above all, the FSU *between 1985 and 1989*. Thus, BIS reporting banks' (4) claims on Eastern Europe, corrected for the fluctuations of the dollar exchange rate (5), are estimated to have grown by about 60% between end-1984 and end-1989, with the FSU accounting for 70% of the increase.

- However, the serious deterioration of the economic and financial situation and the political upheavals seen in Eastern Europe since 1989-90 advised foreign banks to reduce their involvement in that area. As a result, BIS reporting banks' claims on transition countries fell by US$ 9 bn *in 1990* and by a further US$ 1.5 bn *in 1991* (see table 3). In fact, the contraction of bank claims would have been even greater had there not been an accumulation of arrears by Poland, Bulgaria and the FSU. The drop in private bank lending was particularly intense in the FSU, where reporting banks' claims fell by US$ 4.9 bn between end-1989 and end-1991. This sudden loss of access to commercial bank finance obliged the FSU to run down sharply its deposits at BIS banks, which fell, on an exchange rate-adjusted basis, by US$ 6.3 bn between end-1989 and end-1991.

- In 1992 and 1993 trends in international bank lending have been very different in the CEECs and the FSU.

  In the case of *the CEECs*, BIS reporting banks have continued to reduce their exposure quite rapidly. Reporting banks' claims on these countries fell by US$ 2 bn in 1992 and by US$ 2.4 bn in the first three quarters of 1993. The decline in bank lending has been very pronounced in the case of Hungary, a country that, however, enjoys a relatively high degree of access to the international bond and equity markets. Between end-1991 and September 1993, the reporting banks' asset position in Hungary fell by US$ 2.6 bn, after having already dropped by US$ 3.3 bn in the two previous years (6).

  By contrast, BIS reporting banks' claims on *the FSU* expanded sharply in 1992 (by US$ 5.9 bn) and again, although moderately, in the first three quarters of 1993 (by US$ 0.4 bn). This basically reflects the increase in new officially-guaranteed trade credits (particularly from German banks), the accumulation of arrears on both interest and principal and the deferrals and restructurings granted by commercial banks (7). On the other hand, the strong capital flight from the FSU has been reflected since 1992 in a rapid rise of deposits held by FSU residents at BIS reporting banks (see table 3).

- The increase in banks' claims on the FSU in 1992 amply offset the decrease in claims on the CEECs. As a result, total bank claims on transition economies increased by US$ 3.8 bn. In the first three quarters of 1993, by contrast, the increase in banks' exposure on the FSU was too small to prevent a US$ 2 bn reduction in their total claims on transition economies.

- The gloomy picture just given about the recent evolution of *new* non-officially guaranteed bank lending to transition economies must be qualified with the two following observations:
  3) Western banks' *direct* lending to *private* enterprises seems to be rising in some Central European countries, in particular in the Czech Republic. This contrast with the continuing reduction of banks' claims on the official sectors of these countries.
  4) Foreign banks have continued to provide fresh lending in a very selective way to certain credit-worthy borrowers, often using a variety of risk-mitigating techniques, including cofinancing with international financial institutions and asset securitization. Thus, the Czech Republic established in February 1993 a US$ 200 million one-year revolving credit facility with a German bank, in order to strengthen its reserves. Also, in July 1993, Slovenia made its debut in the Euromarket with a US$ 100 million three-year syndicated bank loan, the proceeds of which were used for balance of payments purposes.

     Examples of loans granted in 1993 that have used risk-reducing divices are: a US$ 20 million loan facility for the Republic of Georgia secured on oil tankers; a US$ 100 million revolving credit and medium-term loan facility established for Also VAZ, which made of the recently privatized car-maker the first Russian company to borrow internationally without official guarantee; and a Ft 32.5 bn (about US$ 375 mio) loan facility for a road transportation project in Hungary, secured by toll revenues and by the participation of the EBRD, which will bear a significant part of the project risk.

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(3) In this section, the term CEECs excludes the Baltic countries.

(4) BIS reporting banks include banks in the G-10, Luxembourg, Austria, Denmark, Finland, Ireland, Norway, Spain and in most of the well-known off-shore centers (the Bahamas, Hong-Kong, Bahrain, etc.).

(5) Since a relatively high proportion of the BIS reporting banks' claims on Eastern European countries is denominated in currencies other than the dollar, the increase in the dollar value of total claims between 1984 and 1989 is exaggerated by the depreciation suffered by the US dollar during most of that period. For this reason, it is more relevant to look at exchange rate-adjusted changes in claims. Unless otherwise indicated, all mentions made hereafter to BIS reporting banks claims will refer to exchange rate-adjusted claims.

(6) However, it must be noted that most of the US$ 1.1 bn contraction in claims of Hungary recorded in Q3' 93 reflected the writing-off of previous claims on the CMEA that had been fictiously reclassified as claims on Hungary after the dismantling of the CMEA.

(7) Bank creditors agreed in December 1991 to postpone repayments due in the following quarter, an agreement that would be renewed several times. In July 1993, the London Club accepted to reschedule repayments due in 1993 in exchange for a partial resumption of interest payments by Russia. By the end of 1993, however, Russia had still not made any interest payments.

TABLE 3: **Exchange rate-adjusted changes in BIS reporting banks external assets and liabilities vis-à-vis Eastern Europe**
(in millions of US dollars)

	1989	1990	1991	1992	12 months up to Sept. 93 p.	1993 I p	1993 II p	1993 III p
ASSETS								
Albania	271	−22	−46	18	55	20	−1	19
Bulgaria	742	−461	−670	−477	−726	−156	−235	−93
Former CSFR	619	−404	−796	−330	−536	−31	−150	−108
Hungary	508	−1.861	−1.440	−1.557	−1.643	202	−183	−1.072
Poland	−631	2	38	52	−1.021	−319	−279	−160
Romania	−474	21	115	308	377	69	80	50
FSU	7.456	−6.240	1.313	5.883	380	−360	757	34
Residual	57	−120	−10	−14	−30	6	−2	−58
Total Eastern Europe	8.548	−9.085	−1.496	3.839	−3.144	−569	−13	−1.388
East. Europe excl. FSU	1.092	−2.845	−2.809	−2.044	−3.524	−209	−770	−1.422
LDC's (1)	−13.907	−8.013	9.224	55.276	12.400	5.000	400	−4.800
LIABILITIES								
Albania	165	−98	−190	39	51	4	24	0
Bulgaria	−571	−621	438	444	10	−131	−65	119
Former CSFR	524	−955	1.395	1.164	213	3	341	139
Hungary	−225	498	1.885	−703	−1.324	−290	−116	−102
Poland	240	3.496	−2.528	2.675	376	−1.044	217	−49
Romania	997	−1.313	−16	185	172.172	73	20	65
æFSU	−686	−6.599	330	5.776	6.140	1.554	2.236	−318
Residual	85	−200	−2	129	−3	−52	−24	−10
Total Eastern Europe	529	−5.792	1.312	9.709	5.635	117	2.633	−156
East. Europe excl. FSU	1.215	807	982	3.933	−505	−1.437	397	162

Source: BIS quarterly reports on International Banking and Financial Markets Developments.
p = provisional.
(1) Excluding CEEC's and NIS.

3. Foreign direct investment

- Net inflows of FDI into transition economies have increased rapidly from practically zero in 1988 to an estimated US$ 4.6 bn in 1993 (see table 4). The growth of net FDI was particularly rapid in 1991 and 1992 but was interrupted in 1993.

- The share of Eastern Europe in total FDI into non-developed countries, which was close to zero before the beginning of the reforms, has risen considerably in recent years despite the strong growth in FDI to LDCs (see figure 1). At 8.2% in 1993, however, the share remains modest.

- The growth in FDI has been very concentrated in a few countries. Hungary and the Czech Republic (8) alone account for about 50% of the total net inflow of FDI received by CEECs and NIS since 1990. Other significant recipients *in terms of absolute values* are Russia, Poland, Slovenia, Ukraine and Kazakhstan.

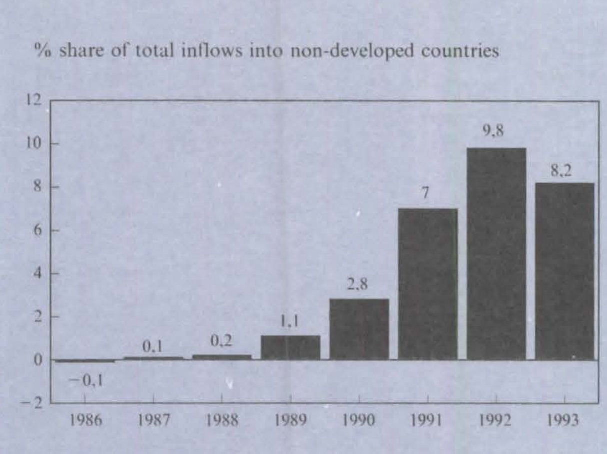
  In per capita terms, Hungary ranks first with average annual net inflows of US$ 130 per head in the period 1992-93, followed by the Czech Republic and Slovenia, both with net inflows per capita of around US$ 70, and Estonia with US$ 46. All other countries (including Poland) have per capita inflows of less than US$ 20.

  With a share of only 12% in the total net inflow of FDI received by the region since 1990 and a per capita net inflow of only US$ 5, Russia continues to be clearly underrepresented. FDI in most other NIS remains marginal with the exception of Ukraine and Kazakhstan.

(8) The Czech Republic is estimated to have received about 95% of the FDI that flowed into the former CSFR between 1990 and 1992.

- A breakdown by investor country of total FDI flows into transition economies is not available. Partial information for various individual countries, however, suggests that EC and EFTA countries account for between 50 and 75% of the cumulative inflows since 1990. Germany and the USA are the two main providers of FDI flows. Japanese companies, by contrast, continue to show little interest in the region. Germany and Austria dominate investment into their neighbouring Central European countries.

GRAPH 1: **Net FDI inflows into Eastern Europe**



Source: World Debt Tables 1993/94, World Bank.

- The stagnation of the net inflow of FDI seen in 1993 has occurred despite a significant growth of FDI in Poland, Estonia and Slovenia, and is basically explained by the reduction in inflows into Hungary and, in particular, the Czech Republic. In this last country, net FDI sharply fell from US$ 983 mio in 1992 to US$ 561 mio. Net FDI inflows in other countries, however, also fell slightly or slowed down their growth.

The interruption of FDI growth in 1993 could reflect the following factors: 1) recession or weak activity in some of the main investor countries (in particular, in Germany) have reduced their companies' need for enlarging productive capacity; 2) in some Central European countries, privatization has lost steam and the most profitable investment opportunities have already been exploited; 3) increased political instability in the NIS; 4) finally, in the case of the Czech Republic, FDI was negatively affected in the first quarter of 1993 by the uncertainties surrounding the split of the CSFR.

TABLE 4: **Foreign direct investment into transition economies**

	Net inflows in million US dollars				Annual per capita net inflow	Number of registered joint-ventures (2)			
	1990	1991	1992	1993 (1)	(average 1992/1993)	1990	1991	1992	1993 (3)
Central and Eastern Europe									
Albania	—	—	21	22	6	—	—	1.200	1.300
Bulgaria	4	56	42	44	5	140	900	1.200	1.200
Former CSFR	199	594	1.054	—	—	1.600	4.000	5.995	
Czech Republic	—	—	983	561	75	—	—	3.120	3.700
Slovak Republic	—	—	71	100	16	—	—	2.875	3.948
Hungary	337	1.459	1.471	1.200	130	5.693	9.117	13.218	15.311
Poland	88	117	284	580	11	2.799	4.796	5.740	6.300
Romania	−18	37	73	50	3	1.501	8.022	20.684	26.249
Former Yugoslavia	67	119	93	—	—	—	—	—	—
of which:									
Croatia	—	—	16	36	5	—	—	—	—
Slovenia	−2	41	113	140	70	—	1.000	2.815	3.050
Total above (A)	677	2.382	3.038	2.733	23	—	—	—	—
Former Soviet Union (B)	100	186	1.580	1.897	6	2.905	3.920	15.290	20.290
of which:									
Estonia	—	—	58	86	46	—	1.100	2.662	4.052
Latvia	—	—	43	50	18	—	295	2.621	2.700
Lithuania	—	—	10	40	7	—	220	2.000	2.638
Kazakhstan	—	—	200	300	15	—	—	540	—
Russia	—	100	700	666	5	—	2.022	3.252	5.249
Ukraine	—	—	200	225	4	—	400	2.000	2.400
Uzbekistan			100	100	5	—	—	570	—
Total transition countries (A + B)	727	2.568	4.618	4.630	11	—	—	—	—

Sources: World Debt Tables (World Bank), UN Economic Commission for Europe, national balance of payments statistics and Commission estimates.
(1) For many countries, preliminary estimates.
(2) Data from the UN Economic Commission for Europe's joint venture database. The high figures reported by Romania probably reflect a methodological problem in the statistical definitions used by this country.
(3) Figures as of July 1993.

4. Access to the international bond and equity markets

- The total volume of funds raised by the transition economies in the international bond and equity markets increased steadily between 1989 and 1992 and rose sharply in 1993 (see table 5). Most of the funds raised in these markets was in the form of international bonds, with issues of international shares remaining insignificant and even declining in 1992 and 1993.
- Only five transition economies (Hungary, the Czech Republic, Slovakia, Poland and Bulgaria) have so far been able to tap the international bond and equity markets. In fact, Hungary alone accounts for 83% of all international bonds issued by transition economies since 1989 and it is practically the only transition country that has been active in the market for international equity issues. The only other Eastern European countries that have been present to a significant extent in the international bond market are the former CSFR and its successor republics.
- Hungary and the Czech Republic are the only transition economies that have been assigned a rating by the two leading international rating agencies (Moody's and Standard and Poor's). In March 1993, Moody's upgraded to an investment mark the Czech Republic's rating (from the Ba1 previously assigned to the CSFR to Baa3) and Standard and Poor's has issued to the Czech Republic a comparable BBB rating. Hungary's rating, by contrast, is still one notch below investment grade (Ba1 by Moody's and BB+ by Standard & Poor's).
- Having grown from US$ 1 bn in 1989 to US$ 1.4 bn in 1992, total *issues of international bonds* by transition countries increased four-fold in 1993. This was led by the spectacular expansion in borrowing by the National Bank of Hungary (NBH), which raised US$ 4.5 bn taking advantage of favourable market conditions. The Czech National Bank (CNB), for its part, launched its debut issue in April 1993, a US$ 375 mio 3-year Eurobond, to rebuild its foreign exchange reserves after the speculation that accompanied the dissolution of the CSFR. Then, in August, the CNB placed a yen 35 bn (about US$ 290 bn) bond in the Samurai market. The rapid growth of portfolio and other private inflows received by the Czech Republic after the third quarter of 1993 advised the CNB to cancel a third international bond issue that was initially planned for the end of last year. Finally, the National Bank of Slovakia issued in September 1993 a US$ 240 mio international bond.

In January 1994, Calex, a Slovak state-owned manufacturing company, placed a US$ 21 mio 3-year Eurobond carrying a guarantee from the Slovak government. With the NBH currently targeting a total issue volume of US$ 2 bn in 1994 (9), Hungary is likely to remain the most active East European issuer of international bonds in the foreseeable future. Given the surge in private capital flows into the Czech Republic

(9) Of this amount, US$ 1 bn has already been issued in the first two months of the year.

and the country's comfortable current account position, the CNB is unlikely to launch additional issues this year. Some major Czech companies, however, are expected to tap the international capital markets in the coming months.

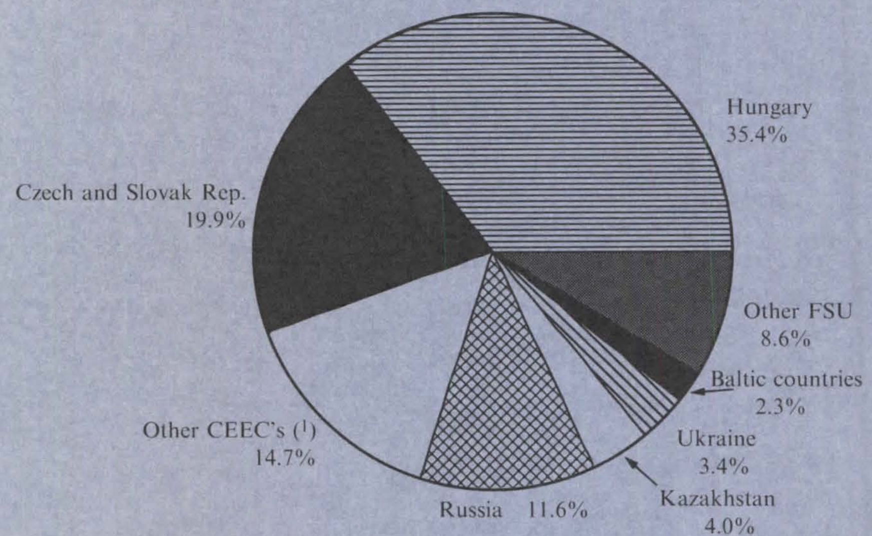
- While significant, the growth of international bonds issued by transition economies has lagged in recent years behind the impressive expansion of issues by the LDCs as a whole. Thus, despite the sharp increase in issuance activity by CEEC's in 1993, the share of transition countries in the total volume of international bonds launched by developing and transition countries in 1993 was, at 9.8%, still far below the 20.5% share seen in 1990.

TABLE 5: **International bond and equity issues** (in millions of US dollars)

	1989	1990	1991	1992	1993	1993 II	1993 III	1993 IV
International bond issues								
Eastern Europe	981	1.263	1.463	1.370	5.733	1.257	1.988	3.530
Czech Republic	—	—	—	—	697	—	322	—
Former CSFR	—	375	277	129	—	—	—	—
Hungary	879	888	1.186	1.242	4.796	279	1.280	1.873
Slovak Republik	—	—	—	—	240	—	240	—
LDC's + Eastern Europe	5.487	6.164	12.428	23.526	58.599	11.764	13.272	23.609
% share of East, Europe over total of LDC's + Eastern Europe	17.9	20.5	11.8	5.8	9.8	—	—	—
International equity issues								
Eastern Europe	n.a.	68	91	33	10	8	—	9
Hungary	n.a.	68	91	33	9	7	—	—
Poland	—	—	—	—	1	1	—	—
LDC's + Eastern Europe	n.a.	1.262	5.436	9.259	11.482	3.179	2.351	5.312
% share of East Europe over total of LDC's + Eastern Europe	n.a.	5.4	1.7	0.4	0.2	—	—	—

Source: 'Private Market Financing for Developing Countries', IMF, February 1994.

GRAPH 2: **Net inflows of FDI received by transition economies between 1990 and 1993**



(1) Excluding the Baltic countries but including the republics of the former Yugoslavia.
Sources: .World Debt Tables (World Bank), UN Economic Commission for Europe, national balance of payments figures and Commission estimates.

5. *Portfolio investment*

- The term portfolio investment covers here the purchase by non-residents of long- and short-term bonds and corporate equities, other than those included in FDI or issued by transition countries in the international capital markets.

- The lack of reliable data makes the measurement of recent trends in portfolio investment to CEECs and NIS a very difficult task. Since there is at present no international organisation systematically collecting comparable statistics on portfolio flows, data have to be obtained from disperse, uncomplete and often inconsistent sources. Furthermore, national balance of payments statistics very seldom distinguish portfolio flows from other capital movements. However, some national balance of payments figures, the boom seen in the stock markets of several CEECs since the second half of 1993 and the growing presence of foreign investors in certain domestic bond markets suggest a significant increase of portfolio investment flows into the region, although, again, concentrated in a limited number of countries.

- The emergent *stock markets* of Budapest, Prague and Warsaw have been experiencing sustained rallies since the third or fourth quarter of 1993 (see graph 2). In dollar terms, their respective market indices closed the year, respectively, 29%, 96% and 787% higher than at the beginning of the year [10]. The Warsaw Stock Exchange was by far the best performing stock market in the world in 1993.

In all three cases, foreign investors have been an important force behind the rallies. Thus, for example, foreign buyers are estimated to account for about 25% of the average daily turnover of the Warsaw Stock Exchange and own about 20% of its market capitalisation. International institutional investors, in particular, are becoming increasingly involved in these markets. Several investment funds targeting totally or partially stocks of listed Central and Eastern European companies have been created. In February 1994, CS First Boston launched a US$ 200 million investment fund for purchasing shares in Hungary, the Czech Republic and Prague. This amounts to about 1% of the combined market capitalization of the Budapest, Prague and Warsaw Stock Exchanges.

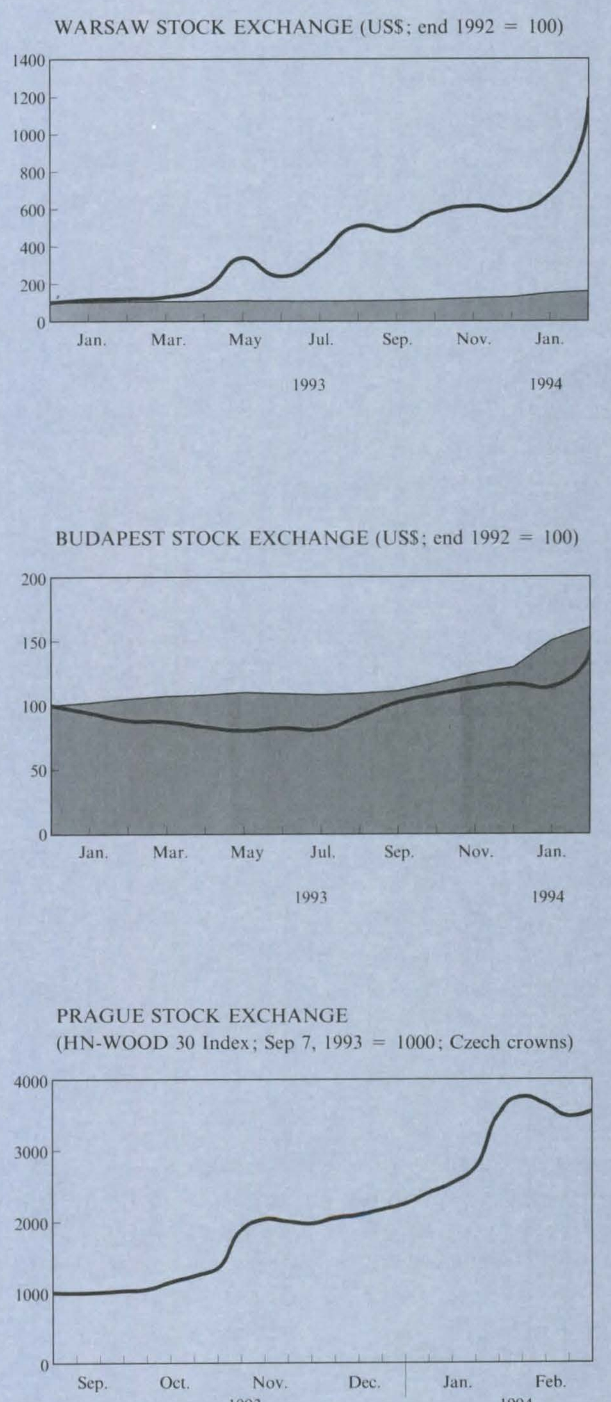
Both the indices and the degree of foreign involvement in the Hungarian, Czech and Polish stock exchanges may suffer a correction from the relatively high present levels. But, beyond this possible short-term reaction, foreign investors' interest in these and other Central and Eastern European stock exchanges should continue to grow as the privatization process proceeds, the number of listed companies increases, the markets become more liquid and the quality of the financial statements and other information disclosed by companies improves.

- Foreign investors are also beginning to show some interest in the *government securities markets* of some CEECs. This is being supported by the progressive liberalization in several countries of the regulations affecting the purchase of government securities and the repatriation of investment income by foreigners.

- Poland and Hungary are removing the restrictions on the participation of foreigners in the Treasury markets in order to find new sources with which to finance their high budget and current account deficits. Thus, in July 1993, *Poland* allowed foreigners to invest in one-year T-bonds and to repatriate freely principal, interest and capital gains from investments in government securities. Until then, foreigners had only been permitted to invest in 3-year T-bonds and in 26-,39- and 52-week T-bills, and had to obtain special authorizations whenever they wished to repatriate profits. In October 1993, Poland allowed foreigners to invest also in 13-week T-bills.

  Hungary, for its part, is planning to increase the access of foreigners to the forint-denominated domestic government bonds by issuing on a regular basis (perhaps every two months) bonds that foreign investors will be able to buy and trade in the domestic secondary market. In the past, only one domestic state bond issue (at the end of 1992) has been open to foreigners, which means that foreigners wanting to invest in Hungarian treasuries have had to do it basically through the purchase of participations in Budapest-based investment funds. These are close-ended funds targeting Hungarian government securities which may sell, with the permission of the National Bank of Hungary, between 20 and 40% of their shares to foreign investors. Since Creditanstalt set up in March 1992 the "CA Securities Hungarian Government Debt Fund", several of these funds have been created.

GRAPH 3: **Central European Stock Market Indices** (1)



(1) The shaded area reflects the evolution of the IFC Composite Index, which covers 1250 securities from 22 emerging stock markets. The black line reflects the evolution of an index of the relevant market.

Sources: International Financial Corporation (IFC) Emerging Markets Database and PlanEcom.

(10) The Prague Stock Exchange started operating only in April of last year.

In the *Czech Republic*, the Foreign Exchange Act restricts repatriation of income on investments of less than one year of original maturity, which in principle precludes foreign investment in T-bills. However, the Czech Republic has signed Foreign Investor Protection Treaties with about thirty countries, which supersede the Act and allow repatriation of all forms of foreign investment. Twenty of these Treaties have already entered into force. Furthermore, the restrictions contained in the Foreign Exchange Act may eventually be abolished as part of the Czech plan to gradually introduce capital account convertibility.

- Foreign investors have also been active recently in the corporate bond markets of some CEECs, especially in Hungary and in the Czech Republic. Much of it has been through the participation in "private placements" of forint-denominated bonds issued either by the local subsidiaries of multinationals or by state-owned companies and banks.

- In most other transition countries, however, fixed income portfolio inflows remain very limited. In many cases the government bond markets are very underdeveloped and illiquid, with the fiscal deficits being financed mainly through the banking system. Corporate bond markets, for their part, are usually either inexistent or too risky for foreign investors. Even when incipient markets exist, foreign exchange and other regulations often prevent foreigners from participating in them. Other factors discouraging foreign investors are the exchange rate and transfer risk associated with macroeconomic and political instability and the lack of appropriate settlement and custody infrastructures.

6. Conditions for a larger inflow of private capital into CEECs and NIS

- By reducing the risks associated with investing in those countries, increased *political and macro-economic stability* would encourage all types of flows. In particular, to the extent that it is reflected in the assignment of a favourable mark by the major international rating agencies, it may have an important positive effect on the degree of access to the international capital markets and on the amount of foreign portfolio investment received by the country. A country with an investment grade rating, like the Czech Republic, not only will be able to raise funds in the international bond markets at low spreads but will become eligible for portfolio investment by major international institutional investors, many of which are constrained either by internal rules or by national regulations to investment grade securities. Macroeconomic stability may also facilitate the removal of some of the exchange controls hindering portfolio inflows and, like the recent experience of several Latin American countries shows, may stimulate the repatriation of flight capital.

- Progress in *structural reform* can also stimulate foreign investment. Privatization increases the opportunities for FDI and equity portfolio investment. Also, improving the definition of property rights, establishing a proper legal and contractual environment for foreign business, creating efficient banking and payments systems and modernizing the transport and telecommunications infrastructures is essential for attracting higher inflows of FDI. Developing well-functioning domestic stock, bond and money markets can widen the range of instruments in which foreigners can invest. This is particularly important in the case of foreign institutional investors, which are managing an increasing share of the industrial countries' savings and which can normally only undertake portfolio investments. Also, success in systemic transformation will strengthen the credibility of the government, will improve the image of the country and will, therefore, reduce the perceived risk associated with investing in it.

- Finally, it is clear that, other things being constant, the higher the *foreign debt*, the more risk the country will be perceived to be and the lower the inflow of private capital will be. Less clear, however, are the implications of debt forgiveness and debt reschedulings for private capital inflows. On the one hand, it may be argued that if a country restructures the debt it will lose credibility and access to the international capital markets, and will experience a slowdown in other capital inflows (including FDI). This is the argument behind the Hungarian strategy of continuing to service its debt and a possible explanation for the much lower inflow of private finance received by Poland as compared to Hungary. On the other hand, it may be argued that a successful debt reduction and restructuring package may, by alleviating the external debt burden, reduce the risk attached by foreigners to investing in the country and increase private inflows. An example of this would be the Mexican experience following the Brady-style debt reduction at the end of the 1980s.

  There may be some truth in both types of arguments. A country which is perceived can manage to "grow out" of its foreign debt (because its debt burden is not excessively high and/or because its GDP and export growth prospects are good enough), and which has not already incurred in the past the credibility cost of running arrears or restructuring the debt, probably stands a better chance of increasing the inflow of private capital by continuing to fully and duly service its debt. By contrast, for a country whose foreign debt burden is perceived to impose an unacceptable cost in terms of a compression of imports and economic growth and/or which has already accumulated arrears or been forced to reschedule in the past ([11]), a comprehensive debt reduction and restructuring package ([12]) may be its best (and, perhaps, its only) way to gain access to private finance. For this second strategy to work, however, the restructuring should be quick and should be seen as complete and definitive: protracted debt negotiations can have a negative impact on private capital inflows and may even cause capital flight. It should also be accompanied by macro-economic and structural adjustment programmes supported by the international financial community.

([11]) A country whose credibility as a debtor has already been damaged by past arrears or debt restructurings has not much more credibility to lose by restructuring again.

([12]) Affecting its commercial debt, its official debt, or both.

7. Implications for EC/G-24 macro-financial assistance to transition countries

- If we exclude the Czech Republic, Hungary, Slovenia, Estonia and Latvia, and we deduct from the change in international bank lending the part that reflects new arrears, deferrals, reschedulings and officially-guaranteed credits, private capital inflows into transition economies have remained relatively modest. Furthermore, in most countries the balance of payments situation will continue to impose a serious constraint on economic growth in the coming years. This is true even for Hungary, the major beneficiary country in recent years of the increase in private capital flows into the area. In Poland, for example, domestic demand growth may decelerate this year reflecting the country's inability to finance a higher current account deficit. More significantly, capital flight, high debt service obligations, low spontaneous private inflows and the need to rebuild the foreign exchange reserve positions are obliging Russia and several NIS to run substantial surpluses in their trade and non-factor services accounts, at the cost of a sharp compression of imports, domestic investment and economic growth.
- EC/G-24 official macro-financial assistance to CEECs is intended to be progressively replaced by private financial flows. By insisting on macro-economic stabilization and structural reform, the economic policy programmes supported by the IMF/World Bank and the EC/G-24 have implicitly aimed at removing some of the major obstacles to a higher inflow of private capital into the transition countries. Furthermore, the conditionality associated with past EC/G-24 macro-financial assistance has normally included some structural adjustment criteria which were explicitly designed to encourage private capital inflows.

  There is, however, some extra room for increasing the focus of the conditionality incorporated into the programmes on those aspects of structural reform that are directly relevant for attracting private capital. These may include, for example, financial sector reform (and, in particular, the development of domestic capital markets), the adoption of tax and foreign exchange regulations that will encourage foreign investment, the improvement in accounting and disclosure standards for enterprises, the signature of Foreign Investment Protection Treaties affecting not only FDI but also other private flows, or the modernization of the transport and telecommunications infrastructures.
- For those countries where a high foreign debt burden remains a major obstacle to their access to international private finance, that is, those countries where the service of the foreign debt imposes an unacceptable cost in terms of reduced imports and economic growth and which have already incurred in the past the credibility cost of accumulating arrears or restructuring the debt, EC/G-24 macro-financial assistance should support debt restructuring and debt reduction operations, provided they are accompanied by the appropriate programmes agreed with the IMF. In this respect, the EC/G-24 support that will be provided in the case of Bulgaria and, possibly, Poland, to allow inter alia for the successful implementation of DDSR agreements with their commercial creditors, would be two important steps in the right direction.

20 april 1994

TABLE A.1: **Industrial production** (a) — Percentage change on preceding period (s.a.)

	1989	1990	1991	1992	1993	1992 IV	1993 I	1993 II	1993 III	1993 IV	1993 July	1993 Aug.	1993 Sept.	1993 Oct.	1993 Nov.	1993 Dec.	1994 Jan.	Change over 12 months (b)
B	3.4	4.4	–2.0	0.0	–5.3	–2.2	–1.8	–0.2	–0.4	–0.8	0.6	1.0	–1.5	2.6	–5.1	2.6	:	–0.1
DK	2.4	0.5	2.2	1.6	–2.8	–6.2	–1.0	–2.3	6.0	–0.7	–3.2	0.0	7.1	–6.8	2.8	–0.4	:	0.9
WD	5.2	5.0	3.1	–1.0	–7.8	–2.9	–3.8	–1.0	0.0	–0.3	–0.7	2.7	–2.4	–0.4	0.4	1.7	–0.7	–4.7
GR	1.5	–1.9	–1.5	–1.0	–2.8	–1.9	–2.6	2.8	1.0	–1.1	–4.9	1.1	3.7	–3.6	0.0	–0.8	0.4	2.1
E	4.5	0.1	–0.8	–2.8	–4.6	–4.4	–2.1	0.5	1.9	1.4	00.2	2.1	–0.4	–2.7	2.3	6.4	–7.9	3.4
F	4.1	1.9	0.0	–1.1	–4.2	–1.2	–0.5	–1.2	–0.1	0.4	0.6	–0.9	0.2	–0.5	1.3	0.5	1.7	–0.1
IRL	11.5	4.7	3.3	9.2	:	–0.7	4.4	–1.4	1.5	:	5.6	1.5	–1.0	1.5	:	:	:	2.2
I	3.9	–0.7	–2.1	–1.5	–2.6	–1.1	0.6	–0.5	–0.6	0.5	0.9	1.7	1.4	0.9	–0.4	–1.3	:	2.2
L	7.9	–0.5	0.5	–0.9	–3.1	0.8	–2.2	3.1	–6.3	2.1	–0.9	–15.3	15.7	1.6	–5.7	1.4	:	0.9
NL	4.2	2.0	2.8	–0.2	–0.9	–2.1	1.8	–1.2	1.5	–2.1	0.9	–0.9	2.7	–2.6	0.9	–4.4	3.7	0.0
P	6.8	9.0	–0.1	–2.2	:	0.1	–0.5	–3.3	1.1	:	1.4	3.6	–3.9	–5.2	4.7	:	:	–5.2
UK	2.1	–0.3	–3.9	–0.5	2.6	0.6	0.1	0.8	1.1	1.0	1.3	–0.1	0.1	1.0	0.4	–0.6	0.6	3.9
EUR 12	4.0	1.9	–0.2	–0.9	(–3.3)	–2.0	–0.9	–0.5	0.3	(0.3)	0.3	0.5	0.1	–0.4	(0.5)	(0.3)	:	(1.2)
USA	1.5	0.0	–1.9	2.4	4.2	1.5	1.3	0.6	0.7	1.6	0.4	0.2	0.2	0.5	0.8	1.0	0.4	4.7
JAP	4.9	4.2	1.8	–5.7	–4.2	–2.6	0.6	–1.6	–0.1	–3.3	–0.5	–0.9	2.1	–5.2	2.3	–1.6	1.0	–2.6

TABLE A.2: **Unemployment rate** (f) — Number of unemployed as percentage of civilian labour force (s.a.)

	1989	1990	1991	1992	1993	1992 IV	1993 I	1993 II	1993 III	1993 IV	1993 Aug.	1993 Sept.	1993 Oct.	1993 Nov.	1993 Dec.	1994 Jan.	1994 Feb.	Change over 12 months (c)
B	8.6	7.6	7.5	8.2	9.4	8.5	8.9	9.3	9.6	9.8	9.6	9.7	9.7	9.8	9.8	9.9	9.9	1.0
DK	7.7	8.1	8.9	9.5	10.4	9.8	10.0	10.4	10.5	10.5	10.5	10.6	10.6	10.5	10.4	10.3	10.3	0.2
WD	5.6	4.8	4.2	.5	5.6	4.8	5.2	5.5	5.8	6.0	5.7	5.9	6.0	6.1	6.0	6.0	6.1	1.0
GR	7.4	7.2	7.7	7.7	:	:	:	:	:	:	:	:	:	:	:	:	:	:
E	17.1	16.2	16.4	18.2	21.5	19.5	20.7	21.5	21.6	22.3	21.4	21.8	22.1	22.4	22.6	22.9	22.9	2.2
F	9.4	9.0	9.5	10.0	10.8	10.2	10.4	10.7	11.0	11.2	11.0	11.0	11.2	11.2	11.2	11.2	11.2	0.8
IRL	15.7	14.5	16.2	17.8	18.4	18.3	18.4	18.5	18.2	18.4	18.2	18.3	18.4	18.3	18.4	18.1	18.0	–0.4
I	10.9	10.0	10.1	10.3	11.1	10.5	10.8	11.3	11.1	11.3	11.0	11.2	11.3	11.3	11.4	11.2	11.2	0.4
L	1.8	1.7	1.6	1.9	2.6	2.1	2.2	2.5	2.7	2.9	2.6	2.8	2.8	2.9	3.0	3.0	3.1	1.1
NL	8.5	7.5	7.1	7.2	8.8	7.6	8.2	8.5	9.0	9.7	8.9	9.3	9.5	9.5	10.0	10.2	:	2.2
P	5.0	4.6	4.0	3.9	5.0	4.2	4.7	5.1	5.1	5.3	5.1	5.0	5.2	5.2	5.5	5.7	5.9	1.3
UK	7.1	7.0	8.9	10.2	10.5	10.6	10.6	10.4	10.6	10.4	10.7	10.6	10.5	10.4	10.3	10.3	10.2	–0.2
EUR 12	8.9	8.3	8.7	9.4	(10.5)	9.8	10.1	10.5	10.6	(10.8)	10.6	10.7	10.8	10.8	(10.8)	(10.9)	:	(0.9)
USA (g)	5.3	5.5	6.7	7.4	6.8	7.3	7.0	6.9	6.7	6.5	6.7	6.7	6.7	6.5	6.4	6.7	6.5	–0.5
JAP (g)	2.3	2.1	2.1	2.2	2.5	2.3	2.3	2.4	2.5	2.7	2.5	2.6	2.7	2.7	2.8	2.7	2.9	0.5

TABLE A.3: **Consumer price index** — Percentage change on preceding period

	1989	1990	1991	1992	1993	1993 I	1993 II	1993 III	1993 IV	1994 I	1993 Sept.	1993 Oct.	1993 Nov.	1993 Dec.	1994 Jan.	1994 Febr.	1994 March	Change over 12 months (%) (b)
B	3.1	3.4	3.2	2.4	2.8	1.0	0.4	0.9	0.3	0.8	–0.2	0.1	0.1	0.2	0.4	0.3	0.0	2.3
DK	4.8	2.6	2.4	2.1	1.3	0.0	0.7	0.2	0.6	0.2	0.3	0.3	0.2	–0.2	0.0	0.4	0.1	1.7
WD	2.8	2.7	3.5	4.0	4.1	1.7	1.0	0.4	0.5	1.4	0.1	0.2	0.2	0.2	0.9	0.3	0.2	3.2
GR	13.7	20.4	19.5	15.9	14.4	2.7	4.4	0.0	4.6	1.3	2.5	1.9	0.8	1.0	0.7	0.2	2.9	10.2
E	6.8	6.7	6.0	5.9	4.6	1.3	0.9	1.2	1.2	1.5	0.6	0.4	0.2	0.5	0.9	0.1	0.3	4.9
F	3.6	3.4	3.2	2.4	2.1	0.8	0.6	0.2	0.5	0.4	0.4	0.2	0.1	–0.1	0.2	0.3	(0.2)	(1.5)
IRL (h)	4.1	3.3	3.1	3.1	1.4	0.4	–0.2	1.0	0.3	0.6	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	:	1.7
I	6.2	6.5	6.3	5.3	4.5	1.2	1.2	0.9	1.0	1.1	0.2	0.6	0.3	0.1	(0.6)	(0.4)	(0.2)	(4.3)
L	3.4	3.7	3.1	3.2	3.6	1.4	0.7	0.7	0.7	0.4	0.1	0.3	0.3	0.1	0.0	0.3	0.0	2.3
NL	1.1	2.4	3.9	3.2	2.6	0.4	0.8	1.0	0.5	0.6	0.6	0.0	0.0	–0.5	0.4	0.5	(0.6)	(2.9)
P	12.7	13.2	10.9	9.0	6.4	1.9	1.4	1.4	1.5	1.7	0.3	0.5	0.7	0.3	0.8	0.6	0.2	6.0
UK	7.8	9.5	5.9	3.7	1.6	–0.7	1.6	0.3	0.3	0.1	0.1	–0.1	0.1	0.2	–0.4	0.6	0.3	2.3
EUR 12	5.1	5.7	5.0	4.2	3.4	0.9	1.1	0.6	0.7	0.8	0.3	0.3	0.2	0.1	(0.4)	(0.4)	(0.3)	(3.2)
USA	4.8	5.4	4.2	3.0	3.0	0.8	0.8	0.4	0.7	0.6	0.2	0.4	0.1	0.0	0.3	0.3	0.3	2.5
JAP	2.3	3.1	3.3	1.7	1.3	0.0	0.9	0.5	–0.3	0.1	0.1	–0.1	–0.6	0.1	0.1	0.0	0.3	1.1

TABLE A.4: **Visible trade balance** — fob/cif, million ECU (s.a.)

	1988	1989	1990	1991	1992	1991 IV	1992 I	1992 II	1992 III	1992 IV	1992 June	1992 July	1992 Aug.	1992 Sept.	1992 Oct.	1992 Nov.	1992 Dec.	Change over 12 months (d)
B/L	–2543	–2107	–5655	–7295	–6746	–1970	–2480	–1472	–1354	–1432	–366	–571	–413	–370	–257	–439	–736	23
DK	925	1225	1951	2318	4062	674	779	901	1043	1306	412	331	377	355	554	496	256	3
D (i)	60935	64055	44036	9245	15262	3241	2477	3055	5961	4152	628	809	2682	2470	2577	1234	341	–1271
GR	–5825	–7783	–9228	–10342	–10609	–3387	–2391	–3076	–2596	–2635	1063	929	–755	–912	–873	506	–1256	–194
E	–11974	–19802	–19232	–21285	–21714	–5624	–6014	–5617	–5912	–4611	–1845	–2274	–1947	–1691	–1423	–1347	–1841	–38
F	–11855	–13986	–17275	–13811	–6835	–2083	–1770	–1125	–1781	–1500	923	–346	–689	–746	–873	398	–229	1187
IRL	2741	3049	2505	2701	5025	890	1228	1356	1247	1339	377	435	456	356	477	448	414	174
I	8388	–11098	–9273	–10439	8193	–2311	–2219	3318	–1519	–1160	1226	786	47	–686	175	513	472	–415
NL	1296	2895	–329	–2913	–1810	–715	–514	24	–210	–859	–136	–91	–187	68	87	–311	–635	–98
P	3473	–5033	6239	–7492	8853	–1922	–1897	2081	–2308	–2435	646	592	–924	–792	704	818	–913	–209
UK	–42384	–41826	–30906	–22327	–26888	–4974	–6375	–6643	–7054	–7144	–2010	–2117	–2751	–2186	–1815	–2613	–2716	–1293
EUR 12 (j)	–20548	–30416	–49647	–81642	–67296	–18108	–18705	–17933	–14534	15116	6500	–6079	–4159	4296	2389	4874	–7853	–2158
USA	–100208	–99430	–79511	–53455	–63871	–13174	–11858	–16945	–17662	–17406	–5255	–5477	–6195	–5990	–5458	–6326	–5622	–873
JAP	65441	58691	41167	62943	82222	17862	20545	20148	18862	22667	6002	6275	5968	6619	7858	7155	7655	1541

TABLE A.5: **Money stock** (k) — Percentage change on preceding period (s.a.)

	1989	1990	1991	1992	1993	1992 IV	1993 I	1993 II	1993 III	1993 IV	1993 Aug.	1993 Sept.	1993 Oct.	1993 Nov.	1993 Dec.	1994 Jan.	1994 Feb.	Change over 12 months (e)
B (M3H)	13.3	4.5	5.8	6.5	:	–0.1	:	:	:	:	:	:	:	:	:	:	:	:
DK (M2)	6.1	7.1	0.6	–0.7	14.6	–2.0	4.7	3.0	5.8	0.7	0.8	0.7	2.2	0.4	–1.8	5.9	0.3	17.7
D (i) (M3)	5.5	4.2	6.3	7.6	10.9	1.6	1.2	2.8	1.5	3.0	0.5	0.2	0.7	0.8	1.5	2.0	(0.8)	(11.9)
GR (M3)	24.2	15.3	12.3	14.4	15.2	3.1	1.0	4.3	3.7	4.2	1.4	1.0	0.9	2.1	1.1	(1.4)	(1.2)	(16.7)
E (ALP)	13.7	16.4	10.8	5.0	7.5	2.0	1.3	1.6	2.1	2.3	0.5	0.9	0.7	0.6	1.0	0.3	–0.6	5.5
F (M3)	9.6	8.9	2.5	5.2	–1.7	1.3	1.2	–0.6	–1.3	–1.0	0.1	0.1	–0.3	–0.4	–0.4	–0.9	–0.3	–4.0
IRL (M3)	5.0	15.4	3.1	9.0	23.3	8.5	12.6	4.1	5.2	2.3	1.2	1.6	1.4	–0.3	1.2	–0.3	–0.2	15.2
I (M2)	9.9	8.1	9.1	4.5	7.8	1.8	2.7	2.3	1.5	1.3	0.5	0.9	0.5	1.1	–0.3	0.5	0.6	7.3
NL (M3)	12.0	7.7	5.2	6.3	7.8	0.7	2.7	1.5	1.1	2.3	0.1	0.1	0.8	–0.2	1.8	:	:	7.8
P (L–)	10.4	11.2	18.7	12.7	6.6	2.4	1.4	1.2	1.1	2.7	–0.5	–0.1	1.5	0.8	0.3	(–0.5)	(0.5)	(5.1)
UK (M4)	18.8	12.0	5.8	3.5	5.8	0.7	1.1	0.9	1.1	2.5	0.3	0.2	1.1	0.4	1.0	0.1	0.8	6.2
EUR 12 (l)	11.1	8.8	6.4	5.6	(6.6)	1.4	1.7	1.6	1.1	1.7	0.4	0.4	0.6	0.5	(0.6)	(0.6)	:	(6.2)
USA (M2)	5.1	3.5	3.1	1.6	1.5	0.4	–0.4	1.0	0.4	0.6	0.1	0.2	0.0	0.3	0.2	0.2	–0.1	2.1
JAP (M2)	12.0	7.4	2.3	–0.2	2.2	–0.3	1.8	–0.1	0.9	–0.1	–0.8	0.6	0.1	–0.8	0.6	–0.3	:	0.8

TABLE A.6: **Short-term interest rates** (m)

	1989	1990	1991	1992	1993	1993				1994	1993				1994			Change over 12 months (c)
						I	II	III	IV	I	Sept.	Oct.	Nov.	Dec.	Jan.	Febr.	March	
B	8.7	9.8	9.4	9.4	8.2	8.5	7.4	8.8	8.1	6.5	10.0	9.2	8.1	7.2	7.0	6.5	6.2	–2.2
DK	9.7	11.0	9.9	11.5	10.8	15.1	9.3	10.9	8.1	6.2	10.3	8.8	8.0	7.4	6.3	6.3	6.1	–8.4
D	7.1	8.4	9.2	9.5	7.2	8.3	7.6	6.8	6.3	5.8	6.6	6.6	6.3	6.1	5.8	5.9	5.8	–2.1
GR	18.7	19.9	22.7	23.5	23.5	26.0	21.8	23.8	22.3	:	25.0	27.9	19.2	19.9	19.5	19.9	:	–5.4
E	15.0	15.2	13.2	13.3	11.7	14.3	12.6	10.6	9.2	8.5	10.0	9.6	9.2	8.9	8.8	8.6	8.1	–6.5
F	9.4	10.3	9.6	10.4	8.6	11.8	8.0	7.8	6.7	6.3	7.3	7.0	6.7	6.5	6.3	6.3	6.3	–5.0
IRL	9.8	11.4	10.4	12.4	9.3	16.3	7.8	6.6	6.4	6.0	6.8	6.6	6.4	6.3	6.0	6.0	6.1	–4.8
I	12.7	12.3	12.2	14.0	10.2	11.8	10.8	9.3	8.8	8.4	9.1	8.8	9.0	8.6	8.4	8.4	8.4	–2.9
NL	7.4	8.7	9.3	9.4	6.9	7.9	7.1	6.4	6.0	5.3	6.4	6.3	6.0	5.6	5.2	5.3	5.3	–2.3
P	14.9	16.9	17.7	16.2	12.2	:	:	10.9	10.8	10.0	10.6	10.6	10.9	11.0	10.7	9.8	9.6	:
UK	13.9	14.8	11.5	9.6	5.9	6.4	5.9	5.9	5.6	5.3	5.9	5.8	5.6	5.3	5.4	5.2	5.2	–0.8
EUR 12 (n)	10.6	11.4	10.8	11.1	8.5	10.2	8.6	7.9	7.2	6.6	7.7	7.5	7.2	6.9	6.7	6.7	6.6	–3.2
USA	8.4	7.8	5.5	3.5	3.1	3.0	3.0	3.1	3.2	3.5	3.0	3.1	3.3	3.3	3.2	3.5	3.8	0.8
JAP	5.4	7.7	7.4	4.4	3.0	3.4	3.2	2.9	2.3	2.2	2.6	2.4	2.3	2.1	2.1	2.2	2.3	–1.0

TABLE A.7: **Long-term interest rates** (o)

	1989	1990	1991	1992	1993	1993				1994	1993				1994			Change over 12 months (c)
						I	II	III	IV	I	Sept.	Oct.	Nov.	Dec.	Jan.	Febr.	March	
B	8.7	10.1	9.3	8.6	7.2	7.5	7.3	7.2	6.8	6.8	7.4	7.1	6.9	6.4	6.5	6.9	7.1	–0.3
DK	10.2	11.0	10.1	10.1	8.8	9.9	8.8	8.5	8.0	7.6	8.4	8.1	8.0	7.7	7.4	7.7	7.8	–1.8
D	7.0	8.9	8.6	8.0	6.3	6.7	6.6	6.2	5.6	5.8	6.0	5.8	5.6	5.5	5.5	5.8	6.2	–0.2
GR	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
E	13.7	14.7	12.4	12.2	10.2	12.0	11.0	9.3	8.3	8.1	8.9	8.5	8.3	8.1	7.8	7.9	8.6	–3.1
F	8.8	9.9	9.0	8.6	6.8	7.6	7.1	6.4	6.0	6.3	6.4	6.1	6.2	5.8	5.9	6.4	6.7	–0.7
IRL	9.0	10.1	9.2	9.1	7.7	9.0	7.9	7.4	6.7	7.0	7.2	6.8	6.8	6.5	6.4	7.0	7.6	–0.7
I	12.9	13.4	13.0	13.7	11.3	13.2	12.5	10.3	9.3	9.2	9.7	9.1	9.6	9.2	8.8	9.0	9.7	–3.3
L	7.7	8.6	8.2	7.9	6.9	7.3	7.1	6.6	6.7	6.4	6.6	6.7	6.7	6.7	6.4	6.3	6.4	–0.9
NL	7.2	9.0	8.7	8.1	6.7	7.0	7.0	6.6	6.2	6.3	6.4	6.2	6.2	6.1	6.0	6.2	6.7	–0.2
P	16.7	16.8	18.3	15.4	12.5	13.8	14.0	11.5	10.5	10.2	10.8	10.4	10.4	10.7	10.6	10.2	9.7	–3.5
UK	9.6	11.1	9.9	9.1	7.8	8.5	8.4	7.4	6.7	7.1	7.2	7.1	6.8	6.3	6.4	7.1	7.7	–0.7
EUR 12 (n)	9.7	10.9	10.2	9.8	7.9	8.8	8.4	7.5	6.9	7.0	7.3	7.0	6.9	6.6	6.6	6.9	7.4	–1.1
USA	8.5	8.6	8.1	7.7	6.6	7.1	6.9	6.3	6.1	6.5	6.0	5.9	6.2	6.3	6.3	6.5	6.9	0.1
JAP	5.2	7.5	6.7	5.3	4.0	4.2	4.4	4.1	3.4	3.6	3.9	3.7	3.5	3.1	3.2	3.5	4.0	0.0

TABLE A.8: **Value of ECU** = ... units of national currency or SDR

	1989	1990	1991	1992	1993	1993				1994	1993				1994			Change over 12 months (c)
						I	II	III	IV	I	Sept.	Oct.	Nov.	Dec.	Jan.	Febr.	March	
BFR/LFR	43.38	42.43	42.22	41.60	40.47	40.11	40.17	40.69	40.89	40.06	41.06	41.49	40.89	40.32	40.36	40.00	39.81	–0.4
DKR	8.05	7.86	7.91	7.81	7.59	7.49	7.50	7.74	7.64	7.56	7.83	7.71	7.64	7.57	7.54	7.57	7.56	1.5
DM	2.07	2.05	2.05	2.02	1.94	1.95	1.95	1.93	1.92	1.94	1.91	1.91	1.92	1.93	1.94	1.94	1.93	–0.5
DR	178.8	201.3	225.2	246.8	268.4	261.9	265.7	270.0	276.1	280.0	273.8	276.3	275.0	277.0	278.8	280.1	281.2	6.9
PTA	130.4	129.4	128.5	132.4	148.7	138.9	146.2	154.8	155.7	158.6	154.1	153.7	154.9	158.4	159.5	157.8	158.6	14.3
FF	7.02	6.91	6.97	6.85	6.63	6.60	6.59	6.69	6.65	6.59	6.69	6.69	6.67	6.60	6.60	6.60	6.58	–0.2
IRL	0.777	0.768	0.768	0.761	0.799	0.779	0.801	0.814	0.804	0.787	0.821	0.811	0.804	0.796	0.778	0.787	0.795	–0.5
LIT	1511	1522	1533	1592	1840	1839	1815	1823	1883	1896	1848	1863	1882	1906	1894	1885	1910	1.7
HFL	2.34	2.31	2.31	2.28	2.18	2.19	2.19	2.17	2.15	2.17	2.15	2.14	2.15	2.16	2.17	2.18	2.17	–0.5
ESC	173.4	181.1	178.7	174.7	188.0	177.6	183.8	194.3	196.8	196.9	196.1	197.1	196.4	197.1	196.2	196.0	198.6	10.7
UKL	0.673	0.714	0.701	0.736	0.780	0.807	0.786	0.764	0.764	0.755	0.773	0.774	0.762	0.757	0.746	0.756	0.764	–5.4
USD	1.102	1.271	1.238	1.295	1.172	1.191	1.207	1.150	1.140	1.124	1.179	1.164	1.129	1.129	1.114	1.118	1.139	–3.3
YEN	151.8	183.6	166.4	164.0	130.1	144.0	132.8	121.4	123.4	121.0	124.2	124.5	121.7	124.1	124.1	118.8	120.1	–12.9
DTS	0.860	0.937	0.905	0.920	0.839	0.903	0.865	0.820	0.818	0.810	0.832	0.827	0.813	0.816	0.811	0.805	0.815	–4.6

TABLE A.9: **Effective exchange rates: export aspect** (p) — Percentage change on preceding period

	1989	1990	1991	1992	1993	1993				1994	1993				1994			Change over 12 months (c)
						I	II	III	IV	I	Sept.	Oct.	Nov.	Dec.	Jan.	Febr.	March	
B/L	–0.9	5.2	–0.3	2.3	0.8	0.1	–0.6	–2.5	–0.5	1.7	0.1	–1.3	1.1	1.6	–0.4	0.7	0.9	–1.2
DK	–2.7	7.6	–1.9	2.8	2.1	1.2	–0.8	–4.6	1.5	0.2	1.6	1.2	0.3	1.2	–0.4	–0.8	0.7	–3.8
D	–1.3	5.7	–1.1	3.3	2.7	0.2	–1.0	–0.2	0.7	–2.0	2.1	0.1	–1.6	–0.6	–1.2	–0.4	1.2	–1.8
GR	–7.5	–8.0	11.5	7.7	–9.6	–2.6	–2.1	–3.1	–2.0	–1.8	–0.5	–1.1	0.0	–0.5	–1.0	–0.8	0.1	–8.1
E	4.1	5.1	0.3	–1.8	–13.1	0.1	–5.6	6.9	–0.4	–2.5	3.5	0.0	–1.5	–2.1	–1.1	0.8	0.1	–14.2
F	–1.3	6.1	–2.1	3.6	1.9	0.3	0.3	–3.1	0.8	0.5	1.9	–0.2	–0.3	1.4	–0.4	–0.4	0.9	–1.6
IRL	–1.3	5.8	–1.3	2.8	–5.9	–5.2	–3.5	–3.3	1.3	1.4	0.6	1.0	0.1	1.0	1.6	–1.2	–0.3	–1.9
I	0.4	3.7	2.0	–2.7	–16.9	–7.9	0.8	–2.1	–3.4	–1.4	–0.4	–1.1	–1.8	–1.2	0.2	0.2	–0.8	–3.8
NL	–1.0	3.9	–0.7	2.4	3.0	0.4	–0.6	0.1	0.8	–1.5	1.7	0.1	–1.0	–0.3	–0.9	–0.4	0.6	–1.0
P	3.2	1.3	0.6	3.6	–7.6	–1.5	–3.7	–6.2	–1.3	–0.6	1.1	–0.8	–0.2	–0.2	0.0	–0.1	–0.8	–10.8
UK	–3.4	–0.8	0.4	–3.6	–9.0	–1.8	2.3	1.2	0.1	0.4	–0.1	–0.5	0.6	0.9	0.9	–1.7	0.4	3.7
EUR 12	3.0	11.5	3.3	2.4	–9.0	–3.6	–1.2	–4.0	–0.2	–1.9	3.2	–0.7	–1.9	0.2	–1.1	–1.2	1.2	–5.3
USA	4.9	–6.2	–0.7	–2.3	4.5	3.5	–3.1	2.1	1.5	0.5	–1.3	1.1	1.7	0.6	0.5	–1.1	–0.8	0.4
JAP	–4.4	–10.2	8.6	5.0	20.8	5.1	9.1	6.5	–2.0	0.8	2.9	–1.0	0.4	–1.9	–1.0	4.6	0.1	12.5

Sources: For Community countries: Eurostat, unless otherwise specified; for the USA and Japan: national sources.
(a) Excluding construction. Data are adjusted for working days.
(b) Percentage change over 12 months on the basis of the non-adjusted series of the most recent figure.
(c) Difference of rates with respect to the corresponding month of the previous year.
(d) Absolute value of change on corresponding month in previous year; seasonally adjusted.
(e) Percentage change over 12 months in the s.a. figure
(f) Number of unemployed estimated by Eurostat on the basis of the results of Community labour force survey; annual average and quarterly average.
(g) National source: quarterly and monthly figures of the Netherlands; USA and Japan; as % of the total labour force.
(h) Monthly figures calculated by linear interpolation.
(i) Before January 1991, West-Germany.
(j) The deseasonalized serie for EUR 12 is the result of a deseasonalization of the gross export and import figures of the Member States.
(k) National sources for Belgium, Denmark, Germany, Spain, France, the Netherlands, Portugal and the United Kingdom; seasonal adjustment by Eurostat for Greece, Ireland and Italy.
(l) Average of monthly changes s.a. weighted by GDP at 1985 prices and purchasing power. Belgium: monthly figure obtained by linear interpolation of quarterly data.
(m) National sources; three-month interbank rate except: Belgium, up to end 1989, 3 month treasury certificates; Denmark, daily money market rate; Portugal: 3 month treasury. Annual, quarterly and monthly averages.
(n) Weighted geometric mean; weights: gross domestic product at current prices and ECU.
(o) Yield on public sector bonds. Portugal starting from 1990 before tax. Annual and quarterly averages. Monthly average for Germany, Spain, France, Italy, Luxembourg, the Netherlands, Portugal, USA; end of month for the other countries.
(p) Weighting coefficients are calculated taking into account not only bilateral trade but also competition on third markets and on the domestic market of the exporting country.

Notes: (s.a.) = seasonally adjusted : = data not available ( ) = estimated.

Principal economic policy measures — February 1994

Community (EUR-12)

14.2 Portugal's revised convergence programme for the period 1993-1997 was approved by the ECOFIN Council.

Belgium (B)

7.2 The central bank reduces its central rate from 6.85% to 6.70% and cuts the rate on advances within the ceiling from 8.35% to 8.20%. The rate on advances in excess of the ceiling and the discount rate are kept unchanged, at 11% and 5.25%.

18.2 The central bank reduces its central rate from 6.70% to 6.55%, its discount rate from 5.25% to 5%, its rate on advances within the ceiling from 8.20% to 8.05% and the rate on advances in excess of the ceiling from 11% to 10.50%.

26.2 The central bank lowers its central rate from 6.55% to 6.4% and its rate on advances within the ceiling from 8.05% to 7.9%. The rate on advances in excess of the ceiling and the discount rate are kept unchanged, at 10.5% and 5%.

Denmark (DK)

17.2 The discount rate and the interest rate on banks' current accounts with the Nationalbank are lowered by 1/4% to 5 1/2%.

Germany (D)

17.2 With effect from 18 February, the Bundesbank cuts the discount rate to 5.25% (from 5.75%) and leaves the Lombard rate unchanged at 6.75%.

Greece (GR)

14.2 The interest rate on one-year Treasury bills is reduced by 25 basis points to 19.50%.

22.2 The Governor of the Bank of Greece presents the monetary policy programme for 1994. The target for M3 growth is set at 8-11%, that for credit expansion to the private sector at 11% and that for total domestic credit expansion at 6-8%.

28.2 The interest rates on three-month and twelve-month Treasury bills are reduced by 50 basis points, to 16.50% and 19% respectively. The interest rate on six-month Treasury bills is cut by 100 basis points to 18%.

Spain (E)

None.

France (F)

24.2 The Monetary Policy Council of the Banque de France cuts its intervention rate from 6.2% to 6.1%.

Ireland (IRL)

None.

Italy (I)

17.2 With effect from 18 February, the Bank of Italy announces that it is cutting the official discount rate from 8.0% to 7.5%. The fixed-term advance is cut by the same amount to 8.5%.

Luxembourg (L)

26.2 On a proposal from the Banque et Caisse d'épargne de l'Etat, the Government approves adjustments in a number of interest rates. As regards deposit rates, the interest rates on savings are to be reduced across the board by 0.5 percentage point with effect from 1 March 1994. As regards lending rates, the interest rate on housing loans is also to fall by 0.5 percentage point with effect from the same date.

Netherlands (NL)

18.2 The Nederlandsche Bank cuts its rate on advances from 5.25% to 5%. The discount rate and the rate on special advances remain unchanged, at 5% and 5.50%.

18.2 The Government decides to ease the burden of taxes and social security contributions by some HFL 5 billion (on an annual basis) with effect from 1995. The breakdown will be as follows:

— HFL 2 billion by lowering the composite rate (corresponding to income tax and social security contributions payable by individuals) in two stages: from 38.25% to 38% on 1 July 1994 (HFL 600 million) and from 38% to 37.25% on 1 January 1995;

— HFL 2 billion by reducing firms' labour costs with effect from 1 July 1994 (reduction in the unemployment premium payable by firms to the unemployment fund). The Government will bear the cost of this measure;

— the balance of some HFL 1 billion is accounted for, among other things, by an additional rental subsidy (HFL 850 million), a reduction in corporate taxes for small enterprises (HFL 175 million) and the abolition (in full or in part) of the tax on capital for new enterprises.

The tax reliefs are possible because of the higher-than-expected level of tax receipts and are designed to stimulate the economy and employment.

Portugal (P)

3.2 The Government raises the minimum wage by 4%.

14.2 The Bank of Portugal reduces its intervention rate for money-market operations by 1/8th of a percentage point. It offers to inject ESC 200 billion of seven-day funds at 10.12% under sales and repurchase agreements. It also proposes to sell seven-day certificates carrying an interest rate of 9.125%.

17.2 The Portuguese authorities merged two of the three telecommunications operators (Telefones de Lisboa e Oporto and Telecom Portugal) to form Portugal Telecom. The new operator is responsible for communications in Lisbon and Oporto as well as for calls with the rest of the country and with Europe. Marconi, the intercontinental operator, in which the State has a 51% holding, is excluded from the merger for the time being.

21.2 The Bank of Portugal lowers its intervention rate for money-market operations by 1/8th of a percentage point.

United Kingdom (UK)

8.2 The Bank of England cuts its base rate by 0.25% to 5.2%.

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